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¶1. (SBU) Summary: DRC technical discussions with the IMF on a new Poverty Reduction and Growth Facility (PRGF) are virtually complete, but IMF Board approval of a new program is unlikely until there is a solution to address the debt-sustainability aspects of the Sino-Congolese mining and investment deal. The IMF projections for DRC's growth rates remain at 2.7 percent, but inflation estimates are revised upwards to 41 percent for 2009. International Financial Institution and donor support will help to close the fiscal and balance of payment gaps for 2009. The GDRC has outlined measures to fill the outstanding gap that was identified during the April negotiations with the IMF. Recent G-20 announcements on increased resources for the IMF are unlikely to have a direct bearing on financing for the DRC. IMF Managing Director Dominique Strauss-Kahn is expected for a visit May 23-25, though formal negotiations with the GDRC are not expected to be part of his agenda. End Summary.

Macroeconomic Program

¶2. (SBU) IMF Resident Representative Samir Jahjah briefed the international community in Kinshasa on May 8 and met with the Ambassador on May 11 to discuss the IMF's recent talks with the Congolese authorities in Washington. IMF Staff and GDRC officials have reached broad agreement on the macroeconomic program for 2009, building on the IMF Team visit in April. GDP growth projections for 2009 remain at 2.7 percent, driven largely by agriculture and construction. Inflation projections have been increased to 41 percent for the year, based on 55 percent annualized inflation in the first quarter. Higher inflation will have an adverse impact, particularly on the poor. The average exchange rate assumption for the year has been increased from Franc Congolais (FC) 740 per US Dollar to FC 820/USD. Government revenues have increased but so have expenditures, due largely to currency depreciation and associated inflation.

¶3. (SBU) The GDRC has decided on several one-off measures to close the fiscal gap that was discussed during the April Mission. First, central government transfers to the provinces will be reduced to 24 percent, compared to the original provision of 40 percent, in 2009. Second, the GDRC plans to accelerate privatization of state enterprises (including the cement company, CIMAT), under a program with the World Bank. Jahjah noted that if privatization were to lag, so might associated investments by donors. One unanticipated outlay was a transfer of FC 20 billion (USD 24.4 million) to the national railway company (SNCC); this was, however, preceded by discussions with the IMF and World Bank.

¶4. (SBU) IMF and GDRC officials have also agreed on a monthly treasury expenditures plan. The plan calls for FC 2.6 trillion (USD

3.2 billion) in public expenditures in 2009, compared to the official budget of USD 4.7 billion. April targets were largely met, though there were arrears of FC 10 billion (USD 12.2 million) in public salary payments, to be made up in early May. Overall, between the GDRC's actions and actual or anticipated funding from the IMF (USD 200 million), World Bank (USD 100 million), African Development Bank (USD 97 million) and European Commission (Euros 48.6 million or approximately USD 63 million), the fiscal and balance of payments plans are considered sound.

¶5. (SBU) A March evaluation of the impact of the global financial crisis on the DRC's banking system found no systematic risk, though it did identify individual banks at risk. The Central Bank is undertaking an audit of these banks. Results were to be released in the coming days and the Central Bank is expected to lend to these banks in order to shore up their capital reserves. Additional structural measures to be addressed in the PGRF include stems to improve customs collections, other public financial management reforms and introduction in 2011 or 2012 of a value-added tax.

6.(SBU) All of the technical aspects of a macroeconomic program to underpin a new PRGF are in place and a program could go to the IMF Board as soon as June. However, the issue of the DRC's investment and mining contract with China is still a stumbling block for a new PGRF. Paris Club creditors are concerned with loan guarantee provisions of the Sino-Congolese deal. IMF staff have little insight into the April round of discussions between the GDRC and the Chinese, but understand that the Chinese are still awaiting the outcome of a feasibility study. If and when the loan guarantees are renegotiated, Paris Club members will expect a revised debt sustainability analysis. There was a Paris Club meeting on May 13,

and the next scheduled meeting will be at the end of June. If the loan guarantee issue is resolved swiftly, Paris Club could convene a special session in order for the IMF Board to be able to consider the PGRF before the end of June.

G-20 Commitments on IMF Funding

7.(SBU) Jahjah explained that recent G-20 announcements on increased funding for the IMF may not have a direct impact upon the DRC. Higher quotas would allow countries such as the DRC to increase drawings in response to new balance of payments shocks. There is no evidence of this need for the DRC at this time. In contrast, funding for the PGRF Trust Fund comes from sales of gold reserves and the Trust Fund has grown due to higher gold prices. This may have an impact on the size of the PRGF in the future.

Upcoming IMF Managing Director Visit

8.(SBU) IMF Managing Director Dominique Strauss-Kahn is expected to visit the DRC May 23-25 and the Ivory Coast May 25-28. The focus of his trip is on fragile post-conflict states, and it is not designed to send the message that all has been resolved with the DRC. The rationale for his visit is not linked to the PGRF negotiations and it is not linked to the China issue. Strauss-Kahn will visit only Kinshasa and meet with the President, Prime Minister, Ministers of Finance and Budget, Governor of the Central Bank, the Commission SP, civil society, private sector and economic faculties of the universities. He will also visit a health center and hold private meetings. Apart from a scheduled meeting with MONUC, no meetings are planned with international community.

Comment

9.(SBU) The rapid approval of a PGRF and the subsequent Highly Indebted Poor Countries debt relief that would follow are highly dependent on resolution of the loan guarantees in the China deal. Jahjah noted that the decision on whether or not to maintain debt-sustainability criteria is ultimately a political one among Paris Club creditor nations, specifically the U.S., France, Belgium, and Japan. The USG may come under increasing pressure to moderate

our position, given that some Paris Club creditors, including France, appear willing to moderate the preconditions for a PRGF, for instance, allowing the program to go ahead, with resolution of the China issue as a condition for later disbursements.

¶10. (SBU) Comment continued: Rising inflation, tight government expenditures, privatizations, and reduced transfers from the Treasury to the provinces are potential sources of political backlash, though Post has yet to see any significant fall-out along these lines. The mention of a value-added tax in future years will also increase political vulnerabilities, particularly because the GDRC will have to manage the timing of VAT introduction, knowing that national elections are to take place in 2011. End Comment.

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